Close Brothers
Asset Management

The Close Inheritance Tax Service

A simple solution to a complex problem

Inheritance Tax

The plain facts

If, on your death, the value of your estate – everything you possess and own outright including your home – exceeds £325,000* (£650,000 for married couples and civil partners) then everything over that amount could be subject to 40% Inheritance Tax.

As a result only 60% of your estate in excess of the personal allowance will pass to your beneficiaries with the balance being taken by HM Revenue & Customs (HMRC).

Tax benefits depend on individual circumstances and rules are subject to change.

The Close Inheritance Tax Service

The Close Inheritance Tax Service (CITS) is a specialist, discretionary investment management service designed to provide accelerated relief from Inheritance Tax (IHT) by investing in Business Property Relief (BPR) qualifying shares quoted on the Alternative Investment Market (AIM) and the NEX Exchange Growth Market.

Providing each investment in the portfolio has been held for two years at death all the capital invested, and any growth, qualifies for BPR and therefore is not subject to IHT.

CITS is one of the longest running AIM-based IHT services with a successful track record spanning over 16 years. From its launch in March 2001 it has proved effective in protecting the value of clients' estates from IHT.

Past performance is not a reliable indicator of future performance.

*Upper limit for IHT nil rate band from 6 April 2012 ("the personal allowance"). This has been frozen until the 2020/21 tax year. Please note that this does not include the potential use of the residential nil rate band.

CITS may be suitable if:

- You are prepared to invest in higher risk shares and accept a high degree of volatility in your investments;
- You have at least £50,000 in cash that you are unlikely to need for income or living expenses and the value of your estate exceeds the £325,000* personal allowance;
- You are seeking an IHT planning scheme that can be effective after as little as two years;
- You don't want to lose control of, or access to, your capital;
- You are seeking a straightforward, transparent, less expensive IHT mitigation scheme where there is no need to establish complex, opaque and costly legal arrangements; and
- You seek the reassurance of a service that utilises widely accepted tax reliefs, clearly outlined by HMRC.

Cash held in the portfolio does not qualify for BPR and the two year time period applies to each individual qualifying investment – not the portfolio as a whole.

Risks

CITS invests in 'qualifying shares' in smaller companies which may be more volatile than investments in more established companies. Such companies can be subject to certain specific risks not associated with larger, more mature companies. Consequently this can make CITS portfolios more volatile as the value of an investment may fall suddenly and substantially. CITS is considered suitable only for informed and experienced investors. You, or your beneficiaries, may get back less than you invest.

Please be aware that an investment in CITS carries substantial risk. There can be no assurance that the CITS investment objectives will be achieved and investment returns may vary substantially over time.

How much could you save?

With no IHT planning in place
House valued at £650,000
£350,000 in stocks and shares
Total IHT payable on death (after personal allowance) – £270,000
IHT saving – £0

With a BPR qualifying portfolio
House valued at £650,000
£150,000 in stocks and shares
£200,000 in CITS (for more than two years)
Total IHT payable on death (after personal allowance) – £190,000
IHT saving – £80,000

These examples are for illustration purposes only and do not include any assumptions on gains or losses made on any assets held. Any tax benefits realised will be dependent on individual circumstances. Tax rules can change in the future. Since April 2017, a new tax-free allowance is available to each person to use against the value of their home, provided they leave it to their children or grandchildren. These examples do not include this new tax free allowance, which would substantially decrease any liability to IHT in its own right.

A more tax efficient way to invest

Individual Savings Accounts (ISA)

AIM & NEX Exchange Growth Market quoted shares are ISA eligible. As such, an investor can enjoy the benefits of an investment portfolio free from income and capital gains tax whilst also accruing IHT relief for their beneficiaries.

Advantages for entrepreneurs

IHT legislation offers flexibility for entrepreneurs who have owned BPR qualifying assets that have accrued a two year holding period. Within three years of disposing of a BPR qualifying asset:

- These can be re-invested into CITS to carry over BPR qualification, potentially saving up to 40% in IHT for beneficiaries at the point of death.
- These can be re-invested into CITS and then gifted into discretionary trusts without being considered a Chargeable Lifetime Transfer. This means that these assets are not liable to 20% IHT on sums greater than £325,000.

CITS has proved attractive for a number of entrepreneurs who have used the liquidity and flexibility of the service to pass more onto their loved ones.

Expert investment selection

In order to reduce the overall risk of your portfolio, we evaluate a potential universe of over 1,000 companies+ and then from this, construct a diversified portfolio typically consisting of around 30 investments.

Given that the capital invested in CITS is ultimately for your beneficiaries, one of the most important aspects of the service is selecting appropriate shares in which to invest.

The investment objectives are to:

- Achieve BPR qualifying status;
- Preserve the value of the capital invested within the context of more volatile markets;
- Achieve some capital growth; and
- Provide diversification of company, sector and geographic risk.

You should note this is not a capital protection service and your capital is at risk so you or your beneficiaries may receive back less than originally invested.

+Source: London Stock Exchange, February 2017

If you die within two years of investment

Should your beneficiary be a spouse or civil partner, the portfolio can be left intact, so that each holding continues to work towards the two year qualifying period from the original date of investment.

Should your beneficiary not be a spouse or civil partner, the value of the qualifying assets will not be exempt from IHT.

Next steps – How do I apply?

Please note, that we will only accept applications where a qualified financial adviser has assessed the suitability of the service for your requirements.

If you would like to discuss the Close Inheritance Tax Service in more detail please contact your financial adviser.

Important Notice:

CITS is a high risk investment by virtue of its target markets of AIM and NEX Exchange Growth Market listed stocks. The volatile nature and relatively poor liquidity of some of these stocks should be made clear to any client looking to invest. The minimum holding period of two years should also be clearly communicated by advisers to clients so they can factor the time horizon into their assessment of whether the risk profile of the service is appropriate.

The information contained in this document is believed to be correct but cannot be guaranteed where data is sourced from third parties. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation.

The value of investments will go up and down and clients may get back less than invested.

Unless otherwise stated, the source of all information or figures is Close Brothers Asset Management.

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